

Issue Paper Number 98-023R



BOARD OF EQUALIZATION
KEY AGENCY ISSUE

<input type="checkbox"/>	Board Meeting
<input type="checkbox"/>	Business Taxes Committee
<input type="checkbox"/>	Customer Services Committee
<input type="checkbox"/>	Legislative Committee
<input checked="" type="checkbox"/>	Property Tax Committee
<input checked="" type="checkbox"/>	Other

TIMBER HARVEST VALUE SCHEDULES

I. Issue

Should the old growth and young growth categories used to classify, value, and report timber for yield tax purposes be replaced by average log-size categories?

II. Staff Recommendation

Staff recommends that old growth and young growth categories be replaced by four general log-size categories (small miscellaneous, small, medium, and large). This proposal integrates objective units of comparison into the valuation process that provides for market consistency, reliable timber values, simplified taxpayer reporting and improved program administration.

III. Other Alternative(s) Considered

1. Make no changes.
2. Replace old growth and young growth categories with two general log-size categories (small miscellaneous and all others).
3. Replace old growth and young growth categories with three general log-size categories (small miscellaneous, medium, and large).

IV. Background

From inception of the timber yield tax program, the Board, by law, has adopted and published timber harvest value schedules twice each year for the nine designated timber value areas in the state. Timber taxpayers are required to use the values from these schedules to determine their yield tax liability.

The Board's harvest value schedules have always displayed values using old growth and young growth characteristics and taxpayers have always reported accordingly. In recent times, the importance of this distinction has diminished. Current transactions are often consummated on some other basis, such as size. This is due in part to fewer old growth timber stands remaining in the state and the application of more stringent environmental regulations concerning harvests containing old growth timber. The contribution of old growth timber to revenue collected has slipped from about 65 percent of the total in 1979, to 17 percent in the most recent year. With increased attention to environmental regulation and the changing policies in timberland management, we anticipate that this trend will continue. We expect that the impact of old growth timber harvesting will continue to decline in the future.

The changing composition of California timber harvests has been discussed many times during Timber Advisory Committee meetings. During one of those discussions, staff was asked to evaluate substituting log-size for old growth and young growth age classifications. The staff and the Timber Advisory Committee support, in concept, the elimination of old growth and young growth designations in favor of values based on log-size. A main area of concern is with respect to the number of log-size categories needed to provide an array of values on the Board's schedules that will reasonably reflect the value of harvested timber. The staff recommendations and other alternatives contained in this issue paper focus on that area of concern.

The Timber Advisory Committee (TAC) supports the Staff Recommendation contained herein. Here is a chronology of TAC public meetings, including assessors and interested parties participation, leading to that position.

6/4/97 – Proposed classification changes were discussed in concept; TAC consensus was to pursue.

11/13/97 – Staff presented drafts of revised schedules only for discussion and input; TAC consensus was to continue the project.

5/5/98 – Staff presented draft copy of issue paper for discussion and input; chairman instructed staff to finalize issue paper including a third alternative suggested by two TAC members and have it ready for presentation at a future TAC meeting.

9/30/98 – Staff presented final issue paper (previously distributed to assessors and interested parties); TAC did not support staff recommendation, rather voted in favor of the third alternative with minor amendment. Staff agreed to do added research on log sizes and to report at the next meeting as to whether it would hold fast or modify its position.

11/12/98 – Staff agreed to change its recommendation and support the alternative approved by TAC provided the amendment to that alternative was dropped. TAC voted to delete the amendment (taking small sawlogs off Table I). Staff agreed to revise the issue paper accordingly prior to submitting the issue paper to the Board for its action.

V. Staff Recommendation

A. Description of the Staff Recommendation

Staff recommends that the existing timber reporting classifications be replaced with a simplified and more objective reporting system. For the nine timber value areas in the state, we propose that the Board's timber value schedules (Tables 3 – 6) be revised to reflect three value categories for most major timber species, determined by average log-size per operation. Species categories which do not exhibit log-size related value differences relative to market analysis, such as hem/fir, incense cedar and miscellaneous conifers, will have one value category. The statewide schedule (Table 1) will continue to contain a small sawlog miscellaneous category. Further refinements will include: moving miscellaneous conifers to Table 1; combining sugar pine with ponderosa pine, whitewoods with hem/fir and redcedar with incense cedar, reducing the number of species from nine to six; and combining all cable logging systems into a single logging category, reducing the number of categories from five to three. A copy of a proposed schedule containing the detail necessary to implement this recommendation is attached. Although only an example of a schedule for green timber is attached, the same modifications and size categories will apply to salvage timber.

B. Pros of the Staff Recommendation

- Audit and compliance procedures will be simplified by the elimination of subjectivity in determining age class and timber quality. Under the staff recommendation, log-size ratings can be calculated precisely from log scaling documents, thus eliminating staff and taxpayer judgment differences.
- Taxpayer reporting will be simplified by the elimination of detailed references relating to classification of old and young growth. The overall taxpayer packet, including instructions and schedules, will be reduced from nine to six pages.
- Harvest value tables will be condensed and simplified, providing potential time savings for auditors, foresters and technicians.

- The use of log sizes in the valuation process eliminates the necessity to reallocate selling price between age class subgroups; fewer adjustments are made to prices, making resulting values more reflective of actual market conditions.
- Provides an array of harvest values on the Board's schedules that reasonably represents most harvesting combinations experienced by taxpayers; reduces the potential for small young trees to subsidize large old trees.
- Log price information obtained from lumber mills will correspond more closely with, and improve the application of, timber tax appraisal methods.

C. Cons of the Staff Recommendation

- Provides an average log-size category (over 300 board feet) that will seldom be used, but that will still require staff effort to develop and maintain appraisals and value schedules.
- Staff's recommendation is slightly more difficult for taxpayer reporting and slightly more costly for the staff to administer than Alternatives 2 and 3. Staff will spend more field time classifying sales into log-size categories.
- Staff's recommendation will require one-time costs for mainframe and personal computer program conversion; appraisal, audit, and compliance staff training; publications, manuals, and forms updates; and sales data conformity updates.
- Taxpayers must be informed and educated about the changes. During this changeover period, there is the potential for an increase in reporting errors.
- Some large taxpayers may need to modify their data processing systems to accommodate these changes.
- Minor tax shifts between taxpayers may occur; minor revenue allocation shifts between counties may occur.

D. Statutory or Regulatory Change

None. The recommendation complies with the definition of "immediate harvest value", as found in section 38109 of the Revenue and Taxation Code. The new procedures, in using size as a valuation factor, will give reasonable and adequate allowance to age, since trees typically become larger as they increase in age.

E. Administrative Impact

1. Positive Impact

- Reduces the time necessary to resolve taxpayer-reporting discrepancies.
- Reduces the number of pages in the harvest value instructions and tables, which should reduce administrative cost.
- Reduces the time needed to analyze sales data, improves the appraisal process and provides better representation of market conditions.
- Simplifies collection and improves utilization of log price information from contributing lumber mills.

2. Negative Impact

- Added workload will be required to modify appraisal programs so that they are compatible with the new harvest value procedure. Existing appraisal information must be converted to the new format; older sales may lack the necessary log-size information needed for conversion.
- Future Board reports showing the amount of timber harvested statewide and countywide may not be compatible with historical reports; some detail may be lost in the transition.
- Revisions to the appraisal, compliance and audit manuals will be necessary.

F. Fiscal Impact

1. Cost Impact

The one-time cost required to implement this recommendation will be absorbed and offset by the minimal identified savings.

Cost Savings

- Reduces the time needed to develop and process value schedules, audit records, and process returns equivalent to .25 position annually.
- Reduces quarterly mailing costs by about \$1,200/year. (\$.10/ mailing x 3,000 accounts x 4 quarters = \$1,200).

Additional Resources (one-time)

Total staff time to implement recommendation is equivalent to .7 position as follows:

- Teale cost of systems modification, estimated at .25 PY's.
- Update Timber Tax PC programs estimated at .15 PY's.
- Timber tax appraisal, compliance and audit manual revisions estimated at .15 PY's.
- Taxpayer education and assistance, estimated at .15 PY's.

2. Revenue Impact

The statewide revenue impact will be relatively minor. However, there is the potential for shifts within administrative subdivisions of the state such as counties or timber value areas. Shifts may occur in areas within the state where substantial volumes of old growth continue to be harvested, or where significant volumes of small old growth timber exist. Individual taxpayers may also experience a similar tax shift due to these same circumstances.

G. Taxpayer/Customer Impact**1. Positive Impacts**

- Simplifies forms and reporting procedures through reduced and condensed tables, simplifies quality code calculations, and eliminates age classification.
- Eliminates a subjective area of historical disagreement with taxpayers and staff that should result in fewer complaints and appeals.

2. Negative Impacts

- Some taxpayers may have to restructure computer information systems currently used to report and pay yield taxes.
- Taxpayers will have to learn and understand new criteria for reporting purposes; reporting errors may increase during the transition period.
- Some taxpayers may not have sufficient information to compute log-size to properly report the yield tax.

H. Critical Time Frames

In order to maintain consistency in our statistics and records, the implementation of the proposed changes should begin at the beginning of a calendar year. It is estimated that implementation of the changes will require four to six months from the date of approval. In order to implement the proposed changes on January 1, 2000, approval of the changes should occur no later than July 1, 1999. If not, implementation will likely be delayed until January 1, 2001.

VI. Alternative 1

A. Description of Alternative

Make no changes.

B. Pros of the Alternative

- Taxpayers and staff are skilled in using the present procedures.
- The costs of converting to a new format and educating staff and taxpayers will be avoided.

C. Cons of the Alternative

- Taxpayers and staff will continue to use and maintain classifications for timber that will soon be obsolete. Old growth timber harvesting is rapidly disappearing in the state (17 percent of the statewide cut in 1997).
- Appraisal, audit and compliance decisions will remain subject to disagreement.

D. Statutory or Regulatory Change

None.

E. Administrative Impact

Problems of administering classification criteria, which is obsolete and out of sync with current practices, will continue.

F. Fiscal Impact

None.

G. Taxpayer/Customer Impact

Continued disagreements on obsolete classification criteria.

H. Critical Time Frames

None.

VII. Alternative 2**A. Description of Alternative**

This alternative is the same as the staff recommendation except that it has only two sawlog designations – miscellaneous sawlogs averaging less than 65 board feet and all other sawlogs 65 board feet and above. A copy of a proposed schedule containing the detail necessary to implement this alternative is attached.

B. Pros of the Alternative

- There should be few internal conversion costs, since this alternative will be easy to implement. Existing Teale and PC software should adapt with minimal difficulties.
- Taxpayer reporting will be simplified; taxpayer conversion of computer information systems will be minimized; and taxpayer education will be minimal.
- Harvest value tables will be condensed and simplified, providing potential time savings for auditors, foresters and technicians.
- Appraisal procedures will be greatly simplified, with price reallocations virtually eliminated, and many appraisal judgment decisions rendered unnecessary.
- Compliance and audit decisions will be more objective, in that all aspects of taxpayer reporting will be reviewed through scaling records.

C. Cons of the Alternative

- This alternative may not provide enough value categories to reasonably estimate value for some timber harvests reported by taxpayers.

- This alternative eliminates reallocation of selling price by size or age class, which may make for less precise appraisals.
- Taxpayers may not perceive this as an equitable system of timber valuation.

D. Statutory or Regulatory Change

None.

E. Administrative Impact

Taxpayer complaints from those that do not realize value levels represented in the Board's tables will likely increase. Procedures and manuals will need to be revised and updated.

F. Fiscal Impact

Cost savings will be similar to staff's recommendation. Revenue impact should be relatively minor. However, there is the potential for shifts within administrative subdivisions of the state such as counties or timber value areas, and among individual taxpayers.

G. Taxpayer/Customer Impact

Taxpayer complaints from those that do not realize value levels represented in the Board's tables will likely increase. On the other hand, it makes for easier reporting.

H. Critical Time Frames

None.

VIII. Alternative 3

A. Description of Alternative

This alternative is very similar to the staff recommendation except that it incorporates one less log-size category for a total of three: below 65 board feet, 65 to 200 board feet, and above 200 board feet. A copy of a proposed schedule containing detail needed to implement this alternative is attached.

B. Pros of the Alternative

- Eliminates the potential subjectivity associated with the old growth-young growth characteristics.

- Simplifies taxpayer reporting and simplifies staff's valuation, audit, and compliance procedures to a greater degree than the staff's recommendation. Slightly less costly to administer than staff recommendation.
- Provides a good match with log price information obtained from sawmills.

C. Cons of the Alternative

- Reliance on fewer units of comparison (i.e., log sizes, species combinations and logging systems combinations) provides fewer value refinements on the Board's value schedules and may sacrifice uniformity for administrative expediency.
- Requires one-time costs for mainframe and personal computer program conversion; appraisal, audit, and compliance staff training; publications, manuals, and forms updates; and sales data conformity updates.
- Some large taxpayers may need to modify their computer information systems to accommodate these changes.

D. Statutory or Regulatory Change

None.

E. Administrative Impact

- Reduces the time commitment to and complexity of staff's present appraisal procedures.
- Mainframe and PC programs, appraisal procedures, and operations manuals, will need to be revised and updated.

F. Fiscal Impact

May result in nominal cost savings; will have the same impact on revenue as the staff's recommendation.

G. Taxpayer/Customer Impact

- Simplifies taxpayer reporting and eliminates areas of historical disagreement with taxpayers and staff over old growth characteristics.
- Requires taxpayer to calculate and track fewer size categories.

H. Critical Time Frames

Same as staff recommendation.

Prepared by: Property Taxes Department, Timber Tax Section
Current as of February 3, 1999.